

HOUSE FINANCE COMMITTEE
January 31, 2008
1:41 p.m.

CALL TO ORDER

Co-Chair Chenault called the House Finance Committee meeting to order at [1:41:29 PM](#).

HOUSE MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Harry Crawford
Representative Les Gara
Representative Mike Hawker
Representative Reggie Joule
Representative Mike Kelly
Representative Mary Nelson
Representative Bill Thomas Jr.

MEMBERS ABSENT

Representative Richard Foster

ALSO PRESENT

Senator Bert Stedman; Senator Charlie Huggins; Karen Rehfeld, Director, Office of Management and Budget; Joan Brown, Chief Budget Analyst, Office of Budget and Management.

SUMMARY

HB 310 "An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making supplemental appropriations; and making appropriations under art. IX, section 17(c), Constitution of the State of Alaska; and providing for an effective date."

HB 310 was HEARD and HELD in Committee for further consideration.

HB 312 "An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

HB 312 was HEARD and HELD in Committee for further consideration.

HOUSE BILL NO. 310

"An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making supplemental appropriations; and making appropriations under art. IX, section 17(c), Constitution of the State of Alaska; and providing for an effective date."

KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET reviewed the language section of House Bill 310, beginning on page 43.

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Ms. Rehfeld began with Section 4, which deals with the Alaska Aerospace Development Corporation (AADC). She noted the request is intended to maximize the ability of AADC to attract launch activity.

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Ms. Rehfeld discussed Section 5, the Alaska Housing Finance Corporation (AHFC). The section specifies the amount of corporate receipts available to the State as the 2009 dividend payment, and the dispossession of those proceeds. The Governor is proposing to allocate the funds for: AHFC debt service, \$11.8 million for the Debt Retirement Fund capitalization, and \$47.9 million for capital projects.

Co-Chair Meyer thought the dividends should be used for in the capital budget instead of the operating budget. Ms. Rehfeld observed that the conversation would continue about whether or not the debt service capitalization should come from general funds. The Administration chose to put some of the dividends towards paying down previous obligations, which is a priority. The proposal also puts some dividend money towards the capital budget. Co-Chair Meyer pointed out that the dividends fluctuate year to year and thought the State should be using the General Fund. He preferred the flexibility of using the dividends in the capital budget.

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Representative Gara asked for clarification about how the AHFC dividend is calculated and wanted to know how much it has been the past few years.

JOAN BROWN, CHIEF BUDGET ANALYST, OFFICE OF BUDGET AND MANAGEMENT, noted that the FY 08 dividend was around \$85 million. The amount has varied. Before the statute was changed the dividend had been around \$1.3 million; after the change to 75% of the net income, the amount has gradually

been reduced. Representative Gara asked how much of the dividend went into the Capital Income Fund in FY 08. Ms. Brown said she would get him that information.

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Representative Gara observed that AHFC is charged with providing low and moderate income housing and wondered if those costs come out of the dividend. He wondered if there were policy as to how much AHFC uses to provide the service. Ms. Rehfeld thought Mr. Fauske, the Executive Director of AHFC, would have that information.

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Co-Chair Meyer clarified that the Capital Income Fund does not have permanent fund earnings in it.

Co-Chair Chenault, referring to Section 5, subsection (c), noted he had concerns about affecting rates by using bonds for repayment.

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Ms. Rehfeld turned to Section 6, which addresses the Alaska Industrial Development and Export Authority (AIDEA) dividend. The amount available in FY 08 is \$23.8 million. The Governor is proposing to utilize the funds in the Debt Retirement Fund.

Co-Chair Meyer reiterated his argument in support of using the dividend in the capital budget. He did not think the State used dividends for debt retirement in FY 07 but put it in the Capital Income Fund. Ms. Rehfeld agreed.

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Ms. Rehfeld clarified that the Debt Retirement Fund is capitalized with general fund money and a number of different funding sources; the Fund is then used to pay the State's annual debt obligations, such as school debt reimbursement.

Co-Chair Chenault wondered if it would make sense to pay for fund debt reimbursement out of the capital budget instead of out of the operating budget.

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Ms. Rehfeld addressed Section 7, the Alaska Permanent Fund Corporation, which appropriates funds from the earnings reserve to the dividend fund for the payment of permanent fund dividends and administrative and associated costs.

There is funding in Section 1 for the Division's operating costs, inflation proofing, and the dividend fund amounts.

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Representative Gara asked for clarification regarding amounts in Section 7. Ms. Rehfeld enumerated the amounts transferred for inflation proofing and to pay the dividend checks: \$1.357 billion for dividends and \$803 million for inflation proofing would be transferred.

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Ms. Rehfeld turned to Section 8, the Alaska Student Loan Corporation Dividend. The Corporation expects \$4.1 million to be available for FY 09. The Governor's budget proposes to appropriate the dividend to several places in the operating budget, such as \$2.5 million for Alaska Advantage Education Grants and several programs in the Department of Education.

Co-Chair Meyer reiterated his argument concerning the use of dividends in the operating budget.

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Ms. Rehfeld described Section 9, the Department of Administration, which appropriates for the catastrophe reserve account. The statute allows up to \$5 million to be swept from lapsing general fund appropriations into this account.

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Ms. Rehfeld turned to Section 10, the Department of Commerce, Community, and Economic Development (DCED). Subsection (a) has to do with the national forest income that comes to DCED for communities within the unorganized boroughs. Seventy-five percent of the amount can be used for public schools and 25% for road maintenance.

Subsection (b) covers salmon enhancement tax collected. Subsection (c) has to do with the seafood development tax collected and passed through to qualified seafood development associations.

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Ms. Rehfeld described Section 11, Department of Education and Early Development, as a departure from what the Committee has seen in previous years. Subsections (a) and (b) reflect the Governor's proposal to put FY 08 and FY 09 surplus into the Public Education Fund. Subsection (c)

contains language having to do with the amount necessary to pay school performance incentive bonuses if the amount exceeds the \$2.5 million currently appropriated in the budget. The amount of the bonus is based on the number of schools and staff qualified to receive it.

Co-Chair Meyer said the school performance incentive program, which the previous Commissioner supported, is in year two of a three-year pilot. He wondered if there was an upper limit on the amount budgeted. Ms. Rehfeld explained that no more than 850 certified staff could receive the bonus; she did not have the dollar amount. Co-Chair Meyer stated his concern about the open-ended nature of the item.

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Co-Chair Chenault wondered if the proposal should be in the number section and not the language section. Ms. Rehfeld said there is an appropriation of \$2.5 million under the numbers section. Part of the dilemma is that eligibility for the bonus cannot be calculated until after spring testing, which is late in the budget year. The language section allows more flexibility to appropriate additional funding before the next supplemental cycle, if the budgeted \$2.5 million is not sufficient.

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Senator Stedman referred to Section 11, subsection (b), regarding forward funding education. He had concerns about the dollar amount and the mechanics of where the money would come from. He hoped the language could be streamlined to make it clearer. Ms. Rehfeld said the Administration's goal is to provide opportunity for forward funding through a three-year plan.

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Ms. Rehfeld continued with Section 12, Retirement System Funding. She highlighted the amount the Administration proposes to put into the FY 09 direct deposit for the Public Employee Retirement System and Teachers Retirement System (PERS/TRS).

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Senator Stedman observed concerns regarding the \$450 million appropriation to PERS in lieu of an on-going contribution. He said the Legislature would continue to work on the pension obligation bond.

Ms. Rehfeld pointed out a correction in subsection (d). The rate included is 14.48%; the rate should read 13.72%.

Representative Hawker spoke to the issue of resolving the retirement system accounts. He wondered about using some of the large cash inflow to the State to more aggressively pay off the money owed. Ms. Rehfeld referred to discussions concerning how much the State could put toward the debt to pay it off earlier. The concern is having enough money to put into savings in order to manage costs over time without going into the earnings reserve.

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Representative Hawker argued for an expansion of the annual budget review to a ten-year budget overview. He did not agree with the Administration's proposal in the budget, but felt that agreement could be reached by looking at the issues over a longer period of time. Ms. Rehfeld agreed.

Co-Chair Chenault mentioned conversations with the Department of Military and Veterans Affairs (DMVA) which has an appropriation in Section 1 that deals with retirement. He thought that appropriation should be in Section 12 instead.

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Ms. Rehfeld moved on to Section 13, the Department of Labor and Workforce Development. Subsection (a) has to do with payments from the fishermen's fund; subsection (b) deals with the second injury fund; and subsection (c) addresses the workers' compensation benefits guaranty fund. These sections allow the benefit payments to go forward; no additional cost is expected.

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Ms. Rehfeld anticipated that Section 14, appropriations for the Department of Law (LAW), would elicit discussion. The Administration proposes a multi-year appropriation of \$9.6 million from the Alaska Capital Income Fund for work related to the gas pipeline and to bringing North Slope natural gas to market, and to other oil and gas projects, for the fiscal years ending June 30, 2009 and June 30, 2010. She thought there might be interest in trading the capital income fund appropriation out with general funds or putting it into the numbers section as a one-year appropriation. She said coming up with the appropriate number to include in the section is difficult and thought that discussion would take place with LAW during subcommittee work.

Co-Chair Meyer reiterated his concerns about the capital budget and wondered whether general fund money could be

used. Ms. Rehfeld responded that the Administration saw this as an appropriate use of general funds.

Senator Stedman asked for historic expenditures for the gas pipeline over the past three years. He pointed out that last year the Legislature was amenable to whatever cash-flow the Administration felt they needed to deal with the issue, but he wanted to be able to keep track of those costs. Ms. Rehfeld agreed to provide the information.

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Ms. Rehfeld described Section 15 as a standard provision for the Department of Military and Veterans' Affairs. Five percent of the market value of the Alaska Veterans' Memorial Endowment Fund, expected to be about \$12,400, will be used for maintenance repair of military monuments.

Ms. Rehfeld moved to Section 16, Department of Natural Resources, regarding about \$2 million in federal receipts received for fire suppression.

Representative Joule asked whether the number was an annual estimate. Ms. Rehfeld said yes.

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Ms. Rehfeld turned to Section 17, the Department of Public Safety (DPS), which includes the sum of \$1.4 million for the Division of Alaska State Troopers' narcotics task force. Subsection (b) explains that if DPS receives a certain amount of federal funds, the difference is reduced. Co-Chair Chenault clarified that DPS does not know from year to year if they receive federal money.

Representative Gara wondered whether the amount was inflation adjusted and asked for clarification. Ms. Brown said the dollar amount remains the same year to year. The number does not change in the language section, but there is an appropriation in Section 1 for the narcotics task force. She said she would get Representative Gara more information regarding inflation adjustment of the funds.

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Ms. Rehfeld presented Section 18, Department of Revenue. Subsection (a) concerns the program receipts received by the child support services agency. Subsection (b) has to do with cost recovery for paternity testing. Co-Chair Chenault wondered how many paternity tests are done each year. Ms. Rehfeld said she would find out.

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Ms. Rehfeld described Section 19, Department of Transportation and Public Facilities, as a new section allowing for the appropriation of funds from fines collected in "traffic safety corridors." The amount, \$44,300, is based on 50% of the collections from FY 07.

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Ms. Rehfeld moved on to Section 20, Office of the Governor, which deals with fuel adjustments. The amount allocated in recent years was \$24 million. The current budget retains that allocation, although there will need to be conversations about whether this amount is sufficient given oil prices. Co-Chair Chenault stated that he would like to adjust the numbers to get closer to the real cost of fuel. Representative Hawker expanded on Co-Chair Chenault's comment.

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Ms. Rehfeld continued with Section 20, addressing subsection (f), Division of Elections costs associated with conducting the statewide primary and general elections for FY 09. She flagged three pieces in the supplemental bill related to election year, including about \$76,000 for advance printing of pamphlets and extra costs for processing petitions.

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Ms. Rehfeld addressed Section 21, University of Alaska fees collected for the issuance of special university license plates. Section 22 encompasses Federal and Other Program Receipts. Ms. Rehfeld highlighted new language in the section regarding the AHFC and the Ocean Ranger program receipts.

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Senator Stedman voiced concern that the revenue collected in this section didn't appear to be sufficient to cover the program costs. Ms. Rehfeld replied that the program, the Department is planning on implementing, will be covered by the receipts generated from the program itself. She acknowledged that putting an ocean ranger on every vessel would cost an additional \$1 million. She said the Department plans to address the issue without seeking additional general funds. Senator Stedman wanted the language in the section clarified.

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Ms. Rehfeld went on to fund transfers in Section 23, which addresses fund transfers related to retirement fund debt. She highlighted the \$11.8 million from the AHFC, \$13 million for state-guaranteed revenue bonds, \$23.8 million from the Alaska Industrial Development and Export Authority, \$71.4 million from the General Fund, \$171.9 thousand from the investment loss trust fund, and \$458,700 from investment earnings and several other transfers.

Co-Chair Chenault wondered why the federal Help America Vote Act in subsection (b) wouldn't be a capital budget issue. Ms. Brown explained that the Help America Vote Act requires that the funds go into an election fund, and so this is the capitalization piece going into the election fund. The capital budget spins out of the election fund.

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Ms. Rehfeld turned to subsection (c), the power cost equalization (PCE) fund. Regarding the PCE fund, Senator Stedman asked about differences in budget amounts in the FY 08 and FY 09 budgets. Ms. Rehfeld said the Administration is working with the Alaska Energy Authority (AEA) and at this point does not anticipate needing additional funding in FY 09. Senator Stedman went on to say the PCE fund has a payoff of about seven percent, which is too high to maintain purchasing power. He thought the Legislature will need to figure out how to lower that payout down or risk the slow erosion of purchasing power. Co-Chair Chenault agreed the issue needed to be addressed and suggested, as an alternative, that the Legislature add more money to the fund to secure the seven percent payoff.

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Ms. Rehfeld explained that subsections (d), (e), and (f) have to do with the National Petroleum reserve. Subsection (g) has to do with revenue collected and appropriated to the fish and game fund under various revenue generated by licenses and fees. Co-Chair Chenault wondered, regarding range fees, how many shooting ranges the Department of Fish and Game managed. Ms. Rehfeld thought three.

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Senator Stedman commented that the Legislature had worked on getting the ranges out of the Fish and Game budget but the item was pulled by the Governor. He called for a discussion on how the Administration views the ranges and hoped to come to an agreement on how to handle them. Ms. Rehfeld agreed and said the Department has been working on the issue.

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Ms. Rehfeld turned to subsection (h), relating to amounts appropriated to the oil and hazardous substance release prevention account. Co-Chair Meyer referred to intent language the previous year to charge back agencies for the cleanup rather than automatically taking money out of the fund. The fund is being depleted as production declines. In addition, most of the spills are caused by state agencies. There is no incentive for the agencies to prevent spills. Co-Chair Meyer thought charge backs would provide incentive.

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Ms. Rehfeld explained subsection (j), fees collected for the Alaska Children's Trust. Subsection (k) has to do with the loan origination fees collected by the Alaska Commission on Post-Secondary Education. Those fees go back into the origination fee account and are used to offset loss when people cannot repay their loans due to death, disability or bankruptcy. Subsection (l) appropriates approximately \$9 million in federal receipts for disaster relief funds. Subsection (m) is a \$7 million appropriation from the general fund to the disaster relief fund. Subsection (n) deals with mine reclamation trust fund accounts.

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Representative Joule asked how much the State spends on disaster relief. He wondered if appropriating funds for disaster prevention, such as erosion prevention, might be more effective. Senator Thomas wanted to see the amounts for relief spent after a flood in Cordova. Ms. Rehfeld said she would get the information.

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Representative Joule pointed out that currently, the State is authorized to react, but he wondered if there was another mechanism that could focus on prevention. Ms. Rehfeld referred to the work being done by the Division of Community and Regional Affairs. The Administration is proposing in the supplemental to make funds available for communities that are threatened by erosion. She referred to a number of agencies dealing with prevention, but emphasized that the question was how best to fund and coordinate those efforts.

Ms. Rehfeld continued through subsections that are largely standard and familiar. She highlighted subsection (s) as a new one which proposes to put \$2.5 million of the Alaska Student Loan Corporation dividend into the education loan fund for the Alaska Advantage Grants to fund needs-based

grants. She explained that there had not previously been general funds in the fund.

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Co-Chair Meyer wanted to know what the overall vision was for the program. He asked if the money would be asked for every year. Ms. Rehfeld replied that the Administration hoped to create an endowment that would make the funds available on-going in order to help low-income people stay in school. Co-Chair Meyer thought if the proposal were an on-going program, it should be an operating budget item and more appropriately funded with the general fund than with dividends.

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Representative Thomas asked for a cost benefit analysis of what the State spends on other services for people who do not get education benefits. He thought not providing support for people who wanted an education might cost the State in other ways. Ms. Rehfeld expected the Alaska Commission on Post-Secondary Education could provide information on trends regarding the benefits of college or training. Representative Gara pointed out that Alaska is short between \$3 and \$6 million in educational aid, according to a study done by the Board of Trustees. He said Alaska has the second smallest amount of need-based aid in the country.

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Ms. Rehfeld talked about subsection (t), an appropriation of \$10 million to the municipal Harbor Facility Grant Fund, to capitalize the fund. Co-Chair Chenault thought this should be moved to the capital budget.

Ms. Rehfeld moved to subsection (u), the appropriation for the Alaska sport fishing enterprise account, money collected through the sale of sport fish licenses and deposited into the bond redemption fund, a transfer payment for debt service on bonds for hatchery construction. Subsection (v) is also related to the Alaska sport fishing enterprise account, as a reimbursement for the federally allowable portion of the principal balance payment on the revenue bonds.

Ms. Rehfeld described subsection (w) as the oil and gas credit fund and observed that \$200 million goes into the fund to facilitate payments of the individual refunds.

Senator Stedman made a suggestion about how future budgets could be more clearly presented to avoid confusion.

Ms. Rehfeld turned to subsection (x) which appropriates \$5 million from the general fund to the information services fund to support information technology projects. Subsection (y) transfers \$19 million from the Alaska Capital Income Fund to the school construction grant fund. Subsection (z) transfers nearly \$81 million from the Alaska Capital Income Fund into the major maintenance grant fund. The Governor proposes funding one school construction project through (y) and twenty major maintenance projects through (z).

Senator Stedman asked what the Administration envisioned regarding construction and maintenance funding. Ms. Rehfeld replied that the Governor would like to provide some amount of annual funding toward district facilities' major maintenance needs.

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Ms. Rehfeld addressed Section 24, which appropriates claims against bonds for land reclamation. Section 25 allows credit card service providers to retain fees that they charge for using credit cards for various services.

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Ms. Rehfeld explained that Section 26 addresses salary and benefit adjustments for state and university bargaining units. The number section is meant to cover these costs, [based on the agreements that have been reached]; the language section would allow the Administration to bring forward any additional collective bargaining agreements.

Ms. Rehfeld highlighted new language in Section 27, which addresses shared taxes. Subsection (b) allows a municipality to assign their payment under subsection (a) to a state agency. For example, if a municipality was going to receive an amount under the fisheries business tax, but they owed the Department of Administration (DOA) some funding under the retirement system, they could assign the payment to DOA.

Co-Chair Chenault asked for more information on the cruise ship impact fund. Ms. Rehfeld believed the estimate under the vessel excise tax is around \$46 million. About \$11.5 million of that goes to the impact fund. The Department of Revenue (DOR) has been charged with developing regulations to allocate those funds in a way that meets the intent of the initiative and addresses issues of concern to communities, the cruise ship industry, the Legislature and the State. DOR could provide information to the Committee. The money will stay in the account until decisions are made.

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Ms. Rehfeld added that the DOR has made payments to the first five ports of call, amounting to less than \$1 million. Ms. Rehfeld and Committee members agreed that more discussion was needed.

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Ms. Rehfeld addressed section 28 regarding State debt and other obligations. She said there were few changes in this section and gave a general overview of the subsections.

- (a) General funds to pay interest on revenue anticipation notes that might be issued.
- (b) Appropriates general funds for principal and interest on state-guaranteed bonds.
- (c) Appropriates \$30,789,700 to the state bond committee for payment of debt service and interest.
- (d) Appropriates a sum to the state bond committee for a bond issue premium.
- (e) \$13 to the state bond committee related to debt service on state-guaranteed transportation bonds.
- (f) More to the state bond committee related to debt service on state-guaranteed transportation bonds.
- (g) Appropriates \$50 million to the state bond committee for payment of debt service and trustee fees on international airport revenue bonds.
- (h) Appropriates \$2 million from interest earnings of the clean water fund to the clean water fund revenue bond redemption fund.
- (i) Appropriates \$1,115,000 interest earnings from the drinking water fund for payment of principal and interest.
- (j) Appropriates \$8,061,300 from the Debt Retirement Fund to the state bond committee for fees and payments relating to certificates of participation.
- (k) Appropriates \$3,467,100 from the general fund to the DOA for payment of obligations of AHFC regarding the Robert B. Atwood Building in Anchorage.
- (l) Appropriates \$22,424,525 to the DOA for FY 09 for payment for facilities including the Anchorage jail, Spring Creek Correctional Center, Yukon-Kuskokwim Correctional Center and the Point MacKenzie Correctional Center.

Representative Hawker thought the Department of Corrections would not move ahead on the Port MacKenzie project at this time. Ms. Rehfeld said the Administration has been working closely with the Department regarding the project and the Administration will make amendments as needed.

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- (m) Appropriates \$3.3 million for the Anchorage parking garage.
- (n) Appropriates \$97,021,161 for the Department of Education and Early Development for cost of school construction under the debt reimbursement program.
- (o) Appropriates \$8 million to various state agencies for reimbursement for authorized projects.
- (p) Appropriates \$7.5 million from the Alaska Fish and Game revenue bond redemption fund to the state bond committee. This is the majority of the surcharge on sport fish licenses previously authorized and transferred into the bond redemption fund, a payment for debt service on the bonds issued for hatchery development.
- (q) Appropriates \$2 million from the general fund for the Kodiak jail.
- (r) Appropriates \$4.5 million from the general fund to the Department of Education regarding payments for "master lease line of credit" for debt service.

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Representative Hawker emphasized that Section 28 illustrates that the State needs a ten-year vision to provide a context in which such large numbers make sense. Representative Kelly agreed and thought that something needed to be done before the State moves out of the surplus funds.

Ms. Rehfeld moved to Section 29, language having to do with the constitutional budget reserve (CBR) fund. Subsections (c) and (d) are based on the dollar amounts the Administration anticipated would go to the CBR after the other savings and investments were taken care of.

Co-Chair Chenault wondered if leap year had been factored in, which amounts to around \$15 million for one added day. Ms. Rehfeld said leap year had been taken into consideration.

Ms. Rehfeld explained that the remaining sections deal with effective dates and lapse.

HB 310 was heard and HELD in Committee for further consideration.

HOUSE BILL NO. 312

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

Ms. Rehfeld addressed the language sections on House Bill 312, found on page 11 of the bill. Section 7 has Legislative Budget and Analysis language and section 8 deals with salary and adjustments in the same manner as the operating bill in section 26.

Co-Chair Chenault recognized the process would not be easy, but was hopeful that the Legislature and the Governor could come to agreement on the budget.

HB 312 was heard and HELD in Committee for further consideration.

ADJOURNMENT

The meeting was adjourned at 3:28 PM.